

STATE OF MINNESOTA
OFFICE OF ADMINISTRATIVE HEARINGS
FOR THE PUBLIC UTILITIES COMMISSION

In the Matter of a Petition by Minnesota
Power for Approval of the Arrowhead
Regional Emission Abatement Rider
(AREA Rider) and Related Procedural
Matters

**SUMMARY OF TESTIMONY
AT PUBLIC HEARING**

The above matter came before Administrative Law Judge (ALJ) Bruce H. Johnson for a public hearing in Duluth Minnesota at the Holiday Inn Hotel and Suites, 200 West First Street, Duluth, Minnesota on April 4, 2006, beginning at 7:00 p.m.

This Summary of Testimony reports to the Public Utilities Commission (PUC) on the oral testimony offered by speakers at the public hearing listed above. The Commission will issue an Order on the Emissions Reduction Proposal by Minnesota Power (or the Company) after examining this Summary, the hearing transcript, all filings in writing submitted by the public, and all filings and arguments submitted by Minnesota Power, the Minnesota Department of Commerce, the Minnesota Pollution Control Agency (MPCA) and other interested persons and entities.

I. SUMMARY OF MINNESOTA POWER TESTIMONY

Minnesota Power presented the testimony of Dennis Niemi, the Company's Director of Environmental Services. Mr. Niemi began his presentation by providing a general overview and description of the project. The project's purpose is to significantly reduce emissions from two coal-fired generating facilities—namely, the Taconite Harbor Energy Center near Schroeder and the Laskin Energy Center located in Hoyt Lakes. Emissions from those two facilities affect the nearby Boundary Waters Canoe Area and Voyageurs National Park.

The facility at Taconite Harbor currently has three coal-fired units with a combined generation capacity of 225 megawatts. They burn low sulfur, low mercury sub-bituminous coal, and each unit is equipped with hot side electrostatic precipitators for particulate control. The reduction of emissions at the Taconite Harbor facility will be accomplished by retrofitting it with Mobotec multi-emission control technology. The new

technology is expected to reduce NOx emissions by 62%, sulfur dioxide emissions by 65%, and mercury emissions by 90%.¹

The Laskin Energy Center currently has two coal-fired units with a combined generation capacity of 110 megawatts. They also burn low sulfur, low mercury sub-bituminous coal, and each unit is equipped with a wet particulate scrubber. The reduction of emissions at the Laskin facility will be accomplished by retrofitting it with low NOx burners, overfire air systems, and neural networks, resulting in a 66% reduction of NOx.²

Minnesota Power expects to put the proposed the new technology into operation between 2006 and 2008, with the retrofitting of the Taconite Harbor facility proceeding first. The estimated capital cost of the improvements is approximately \$49.5 million at Taconite Harbor facility and \$4.5 million at the Laskin facility, for a total of about \$54 million. The Company estimates annual incremental operations and maintenance cost to be approximately \$4 million. It proposes to recover costs through an energy based charge that will appear as a separate line item on retail customers' bills. On average, the customer rate increase is estimated to range between 0.7% to 1.2% in December 2006 to 1.9% to 3.3% in December 2008.³

II. PUBLIC TESTIMONY

The public hearing was attended by PUC Commissioner Kenneth Nickolai and four members of the public, three of whom offered comments. No representatives of the PUC Staff, the Department of Commerce (DOC) or the Office of the Attorney General (OAG) attended. David Skolasinski and Richard Bradford, city administrator for the City of Hoyt Lakes both spoke in favor of the project. Lee Prinkkila asked some informational questions and also spoke in favor of the project.

In response to a question from Commissioner Nickolai, Minnesota Power indicated that the rate increases will be computed as an additional fixed charge per kilowatt hour. Accordingly, large power customers will pay proportionately more than, for example, retail customers.⁴ Mr. Prinkkila questioned whether this change could be brought before the PUC as part of general rate increase and built into customer charges. Minnesota Power responded that recovery of costs would occur through the separate charge to customers that it had referred to during its presentation. This rider would remain in effect until the next rate increase is approved by the PUC, and there will be a true-up mechanism to prevent over-recovery of costs.⁵

¹ Tr. at p. 12.

² Tr. at p. 12.

³ Tr. at pp. 12-13.

⁴ Tr. at p. 14.

⁵ Tr. at pp. 14-15.

Mr. Skolasinski appeared at the public hearing in his capacity as the Chairman of the Iron Mining Association's (IMA) Environment Committee. He stated that the IMA represented a significant segment of Minnesota Power's customer base, and that the Association supported efforts to reduce emissions at the Taconite Harbor and Laskin facilities. He further stated that the IMA believed that the AREA Plan was balanced and would ensure that customers would have access to reasonably-priced energy in the future.⁶ Mr. Bradford offered a copy of a resolution of the Hoyt Lakes City Council (a copy of which is attached) that commended Minnesota Power for acting to reduce emissions at the Laskin facility and encouraged the PUC to approve the Company's petition.⁷

Dated this 24th day of April, 2006

/s/ Bruce H. Johnson_____
BRUCE H. JOHNSON
Administrative Law Judge

Reported: Shaddix and Associates
Transcript Prepared.

⁶ Tr. at pp. 16-17.

⁷ Tr. at pp. 17-18.